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NORTHERN ONTARIO NATURAL GAS · GREATER WINNIPEG GAS COMPANY · LAKELAND NATURAL GAS LIMITED · CHAMPION PIPE LINE CORPORATION LIMITED · CANADIAN INDUSTRIAL GAS & OIL LTD. · LE GAZ PROVINCIAL DU NORD DE QUÉBEC LTÉE · TWIN CITY GAS COMPANY LIMITED ·

NORTHERN AND CENTRAL GAS COMPANY LIMITED

ANNUAL REPORT 1966

solidated in this report but will be forwarded separately to all Northern and Central shareholders.

Economic conditions throughout the operating area of the Company remain favourable. Iron ore pelletizing, and other metallurgical processes, continue to provide a major expanding market for natural gas. During the period under review, large industrial contracts have been signed with, or letters of intent received from, Steep Rock Iron Mines Ltd., Caland Ore Co. Ltd., Texas Gulf Sulphur Co. and the agents for The Steel Co. of Canada Ltd., (Griffith Mine, Bruce Lake) which represent over 7.5 billion cubic feet per year of additional industrial gas sales to be on stream before or during 1967. Also of significance is the announced intention of pulp and paper mills served by the Company to operate on a seven-day week. This will improve load balance and will provide important additional revenue.

Following authorization given at a general meeting of shareholders on June 16, 1966, the common shares of the Company were split on a two-for-one basis and the number of authorized common shares was increased to 30,000,000. The directors have approved, on the basis of the new common shares after the stock split, a dividend on the common shares of 8¼c paid on June 1 and 9c per common share, payable September 1, 1966.

Your directors believe that the shareholders of Northern and Central Gas can look forward to another excellent year in 1966.

C. SPENCER CLARK
Chairman

EDMUND C. BOVEY
President

August 2, 1966.

NORTHERN AND CENTRAL GAS COMPANY LIMITED
170 University Avenue, Toronto 1, Ontario

Northern Ontario Natural Gas
A division of Northern and Central Gas Company Limited
170 University Avenue, Toronto 1, Ontario

Greater Winnipeg Gas Company
265 Notre Dame Avenue, Winnipeg 2, Manitoba

Twin City Gas Company Limited
135-137 North Syndicate Avenue, Fort William, Ontario

Lakeland Natural Gas Limited
Box 1087, Gardiners Road, Kingston, Ontario

Le Gaz Provincial du Nord de Québec Ltée
9 est rue Perreault, Rouyn, P.Q.

Champion Pipe Line Corporation Limited
170 University Avenue, Toronto 1, Ontario

Northern Ontario Acceptance Company Limited
121 Main Street East, North Bay, Ontario

Nortwin Development Company Limited
170 University Avenue, Toronto 1, Ontario

Serving 1,400 miles of
Canada from Winnipeg to
Rouyn-Noranda and Cornwall

Corp report file

NORTHERN ONTARIO NATURAL GAS · GREATER WINNIPEG GAS COMPANY · LAKELAND NATURAL GAS LIMITED · CHAMPION PIPE LINE CORPORATION LIMITED · LE GAZ PROVINCIAL DU NORD DE QUÉBEC LTÉE · TWIN CITY GAS COMPANY LIMITED

NORTHERN AND CENTRAL GAS COMPANY LIMITED

INTERIM REPORT
for the
six months ended June 30, 1966

Northern and Central Gas Company Limited

Consolidated Statement of Income (Unaudited)

($000's omitted)	12 Months Ended June 30 1966	12 Months Ended June 30 1965	6 Months Ended June 30 1966	6 Months Ended June 30 1965
Operating Revenues	$55,414	$49,672	$32,589	$29,355 11%
Operating Expenses				
Operations and maintenance	38,604	35,183	20,769	18,840
Depreciation and amortization	2,967	2,572	1,562	1,408
Taxes—General	1,243	1,141	684	621
Taxes—Income	1,343	954	1,789	1,525
Total Operating Expenses	44,157	39,850	24,804	22,394
Operating Income	11,257	9,822	7,785	6,961
Other Income	439	388	239	190
Total Operating and Other Income	11,696	10,210	8,024	7,151
Interest and Other Deductions				
Interest on long-term debt and bank loans	4,494	4,231	2,334	2,130
Amortization of finance expense	214	205	111	103
Provision for minority interest	71	71	64	61
Loss on U.S. exchange and other	59	66	42	52
Total Interest and Other Deductions	4,838	4,573	2,551	2,346
Net Income	$ 6,858	$ 5,637 21%	$ 5,473	$ 4,805 14%
Dividends on Preference Shares	$ 882	$ 882	$ 441	$ 441
Earnings Available for Common Shares	$ 5,976	$ 4,755	$ 5,032	$ 4,364
Earnings per Common Share	$ .91	$ .73	$ .77	$ .67

Note: The above figures give effect to a pro forma consolidation of Northern and Central Gas Company Limited, including Lakeland Natural Gas Limited and Greater Winnipeg Gas Company, which were acquired during 1965, as though all transactions in connection with the acquisitions had taken place prior to the periods reported upon in this statement. Accordingly, the common shares outstanding at June 30, 1966 (6,546,218) were assumed to have remained constant during these periods.

To the Shareholders:

This interim report shows comparative consolidated results of the Company's operations for the twelve and six month periods ended June 30, 1966 and June 30, 1965. The favourable trend of last year's revenues and earnings has carried forward into 1966 at an accelerated rate. Operating revenues for the 12 month period were $55,414,-166, an increase of 12% over the same period in 1965, and earnings per common share increased to 91c (after giving effect to the stock split), as compared to 73c in the previous period. These results were due to economies resulting from the programme of consolidation of the acquired companies' operations and management groups and by colder than normal weather this spring throughout most of the Company's operating area.

The 1966 capital construction programme is on schedule and within budget. The 49-mile, 10-inch diameter transmission line to Atikokan will be completed in late August and the 62-mile, 8-inch line to Rouyn-Noranda is now on final test and the official arrival of natural gas in this area of Northwestern Quebec will be marked by a ceremony in the two cities on August 18th. The annual sales programme is well ahead of last year with 7,320 new customers signed for service since January 1st, as compared with 5,667 on a comparable basis for the same period in 1965.

The offer made on May 20th to acquire the outstanding common shares of Canadian Industrial Gas & Oil Ltd., other than those held by residents of the United States, has been well received and, to date, 4,224,619 shares, or over 80% of the presently outstanding shares, have been tendered for exchange. CIGO results for the six months ended June 30 have not been con-

NORTHERN AND CENTRAL GAS COMPANY LIMITED AND SUBSIDIARY COMPANIES

ANNUAL REPORT HIGHLIGHTS

		1966	1965
Earnings per share*		90¢	81½¢ ***
Net income*		$ 11,117,238	$ 6,105,092
Earnings available for common shares*		$ 10,000,527	$ 5,223,192
Dividends paid on common shares		$ 3,020,920	$ 988,763
Dividend rate per share**		36¢	30¢
Total operating revenue		$ 77,169,072	$ 52,180,537
Property, plant and equipment		$212,223,577	$119,513,961
Common shares outstanding at year end		11,126,604	6,424,756***
Reserves	oil (barrels)	38,600,000	29,750,000
	gas (mcf)	497,200,000	525,500,000
Oil and gas properties	gross acres	6,320,067	4,868,361
	net acres	2,444,288	1,231,116

*On pro forma consolidated basis
**Common shares split on two-for-one basis on June 24th 1966
***On split share basis

CONTENTS

The iron ore pelletizing plant of Caland Ore Company Limited near Atikokan, in Northwestern Ontario, was a major addition to the Company's industrial load during 1966. The nearby pelletizing plant of Steep Rock Iron Mines Limited, now under construction, will be served in 1967.

Des exemplaires de ce rapport annuel en français peuvent être obtenus sur demande à tout bureau de la compagnie.

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NORTHERN AND CENTRAL GAS COMPANY LIMITED AND SUBSIDIARY COMPANIES

DIRECTORS

E. Ryckman Alexander, *Vice-President, Finance,*
Sun Life Assurance Company of Canada

***Edmund C. Bovey,** *President,*
Northern and Central Gas Company Limited

John D. Bryce, *President,*
Macassa Gold Mines Limited

***C. Spencer Clark,** *Chairman of the Board,*
Northern and Central Gas Company Limited

Robert B. Craddock, *Executive Vice-President,*
Northern and Central Gas Company Limited

***Peter D. Curry,** *President,*
Peter D. Curry & Co. Ltd.

M. Clifford Deans, *Chairman of the Board,*
Bankers Bond Corporation Limited

***Edward A. Galvin,** *President,*
Canadian Industrial Gas & Oil Ltd.

A. Searle Leach, *Chairman of the Board,*
Federal Grain Limited

V. Theodore Low, *Partner,*
Bear, Stearns & Co.

Donald McKelvie, *President & General Manager,*
Northern Telephone Limited

***Harold C. F. Mockridge, Q.C.,**
Osler, Hoskin & Harcourt

Blancke Noyes, *Partner,*
Hornblower & Weeks-Hemphill, Noyes

T. O. Peterson, *Chairman of the Board,*
The Investors Group

Joseph Sedgwick, Q.C., *Counsel,*
Smith, Rae, Greer

Peter N. Thomson, *Chairman,*
Power Corporation of Canada, Limited

***William I. M. Turner, Jr.,** *President,*
Power Corporation of Canada, Limited

*Members of Executive Committee

OFFICERS

C. Spencer Clark
Chairman of the Board

Edmund C. Bovey
President

Robert B. Craddock
Executive Vice-President

Edward A. Galvin
Executive Vice-President, Production

Arthur R. Elliott
Senior Vice-President

Adolph M. Hove
Senior Vice-President and Chief Engineer

Donald G. Clark
Vice-President, Administration

Harold E. Andrews
Vice-President, Finance

Rolfe R. Colpitts
Vice-President, Gas Supply and Industrial Sales

W. Ralph Howard
Vice-President, Legal and Secretary

Howard C. Neal
Vice-President, Marketing

Alfred E. Sharp
Vice-President, Utility Operations

Alick S. G. Duguid
Treasurer

Bernard D. Crookes
Assistant Secretary

OPERATING DIVISIONS

Canadian Industrial Gas & Oil Ltd.
Edward A. Galvin
President

Northern Ontario Natural Gas
F. Irving Yewman
Vice-President, General Manager

Greater Winnipeg Gas Company
Arthur R. Elliott
President, General Manager

Lakeland Natural Gas Limited
Andrew A. Irwin
Vice-President, General Manager

REPORT TO SHAREHOLDERS

Throughout the past year, your management has continued to maintain close contact with the many changes taking place in the industrial and economic environment. We have explored in depth many technological advances in the generation and utilization of all forms of energy. Many of these trends are of great significance to the Company's expanding areas of operation.

The challenges inherent in change can only be met by imagination and by discerning and adopting, in to-day's operations, those concepts which will stand the test of the twenty-first century.

1966 was a year of further achievement for Northern and Central Gas Company Limited.

■ Earnings per share increased to a record of 90¢, compared to 81½¢ in 1965. These figures are on a pro forma basis with the earnings of all subsidiaries consolidated for the full year and equated with the number of shares outstanding at year end.

■ All objectives for the year—revenues, customer acquisition, capital expansion programs and cost control—were either met or exceeded.

■ Acquisition of approximately 90% of the outstanding common shares of Canadian Industrial Gas & Oil Ltd. (CIGO) was an important step for your Company towards its objective of vertical integration in the Canadian energy field.

■ Greater Winnipeg Gas Company and Lakeland Natural Gas Limited, two distribution companies acquired in 1965, have been fully integrated into the Company's utility system. The area now served by the Company extends over some 1,500 miles from Winnipeg, Manitoba to Cornwall, Ontario.

■ A transmission line and distribution facilities were completed which brought natural gas to the expanding Northwestern Quebec market of Rouyn and Noranda. Customer acquisition in this area has been very gratifying.

■ A major project in Northwestern Ontario was the construction of a transmission line to supply natural gas to iron ore pelletizing facilities of the Steep Rock range, near Atikokan.

■ Negotiations are being conducted for the acquisition of the gas distribution franchise and the piped distribution system of Great Northern Gas Utilities Limited in Sault Ste. Marie, Ontario.

■ On March 2, 1967, your Company announced an offer to purchase, at $14.00 per share, approximately 60 per cent of the total issued common shares of Quebec Natural Gas Corporation. The offer, if accepted, will require approximately $30,000,000. As the offer does not expire until March 23, 1967, further comment must await your chairman's report to the shareholders at the forthcoming annual meeting:

The mayors of the cities of Rouyn and Noranda opened a valve on August 18th, 1966, to light a flame marking the arrival of natural gas in this dynamic mining centre of Northwestern Quebec.

CIGO'S Operations

The acquisition of CIGO provides an important contribution to the Company's consolidated earnings. Such revenues are not regulated. CIGO, a diversified company, consists of three major components:

Firstly, the industrial gas division which supplies large volumes to industry in the Edmonton area.

Secondly, the propane division (CIGAS) is one of the largest distributors in Canada, its operations extending from the West Coast to Winnipeg.

Thirdly, the exploration, development and production division which has consistently demonstrated its ability to add to CIGO's gas and oil reserves and which has secured a position in the new and highly promising Rainbow area in Alberta and in the British sector of the North Sea.

The discovery of oil in the North Sea, in which the Company has a major interest, is of great significance. There are indications that this field could become one of the world's largest gas and oil producing areas. Your Company has a strong position in the development program.

The operating revenue chart facing page 20 shows the extent to which the three CIGO components have contributed to the consolidated 1966 operating revenues of Northern and Central.

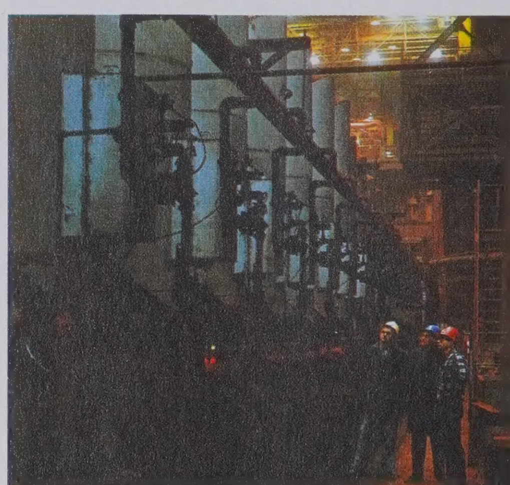
A more detailed report of CIGO's operations follows in this report.

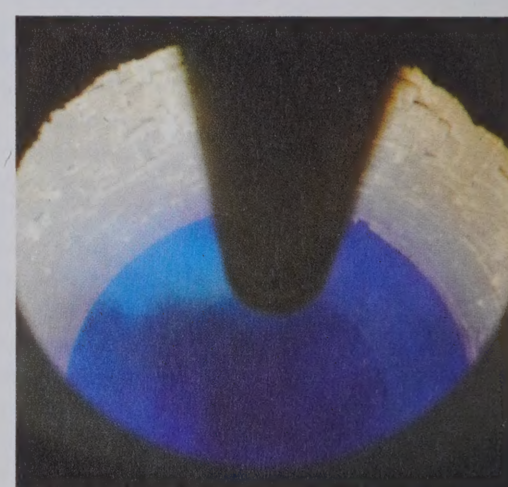
Common Stock Dividends

The shareholders, at a general meeting on June 10th, authorized the common stock

Residential heating sales continue to be a dominant factor of the Company's operations and, in 1966, represented 30.4 per cent of operating revenue. During the year, 13,334 new customers were added to the system. At right is a typical residential area served by the Company.

Iron ore pelletizing is rapidly becoming one of the largest markets for natural gas in Northern Ontario, with one major new load on line in 1966 and three more anticipated this year and next. An iron ore induration machine, with burner controls, is seen at lower left and a dryer flame, firing at 20,000 cubic feet of gas per hour, is seen at right.





of the Company to be split on a two-for-one basis, which became effective June 24th.

Annual dividends, payable quarterly on the split basis, were increased from 30¢ to 33¢ per share on June 1st and from 33¢ to 36¢ on September 1st.

Expansion: 1966 and 1967

Northern and Central sold $12,000,000 in first mortgage and collateral trust bonds in 1966. The Company intends to finance to the extent of approximately $48,000,000 during 1967; $20,000,000 in the form of subordinated debentures with share purchase warrants and the remainder in first mortgage and collateral trust bonds. No common equity financing is contemplated other than the relatively small quantity required for attachment to the debentures in the form of warrants.

These funds will be used for the retirement of present bank loans and to supply the capital budget authorized for 1967 of $33,500,000. Financing of the Quebec offer, if accepted, will probably be in the form of preferred shares.

The capital budget covers normal requirements arising from the anticipated addition of 11,000 new customers to the Company's gas distribution systems. It will also provide funds for construction of a new service centre in Winnipeg and for 84 miles of transmission line northeast of Kenora, Ontario, which is intended to deliver natural gas to the $60,000,000 Griffith iron ore mine and pelletizing plant of the Steel Company of Canada Limited, now under construction at Bruce Lake, Ontario.

Approximately $13,400,000 will be used by CIGO for extension and expansion of gas gathering and transmission systems, to provide additional equipment for CIGAS and to finance exploration, development and land acquisition, principally in the Rainbow area

and in the North Sea.

Regulatory Hearings

During the past year, Lakeland Natural Gas appeared before the Ontario Energy Board for rate base and rate of return hearings, which have just been concluded. In presenting its case, Lakeland stressed the importance of a reasonable rate of return necessary to encourage expansion so that the benefits of natural gas could become available to ever-widening areas of the province. A similar case, with reference to Greater Winnipeg Gas, is now before The Public Utilities Board of Manitoba.

These two hearings are the first rate of return cases to be heard in Canada in some years and, in each instance, management has made every effort to present a well-defined and amply documented case.

Gas Supply

Future supplies of gas are a matter of concern to your Company. The applications by Trans-Canada Pipe Lines Limited to the National Energy Board in Ottawa and Great Lakes Gas Transmission Company to the Federal Power Commission in Washington, D.C. have both been fully supported by the Company. Although Canadian approval of the project has now been obtained, protracted hearings before the Federal Power Commission have met with disappointing and distressing delays in obtaining the necessary authorizations for United States construction.

The matter is one of extreme urgency. Present supplies under contract cover all Company commitments until the latter part of 1968. Plans to serve our rapidly expanding market after that date can be affected by the uncertainties surrounding the Great Lakes permits.

The Broader View

Several factors are essential. Adequate volumes of gas must continually be available at competitive prices and, if the required construction facilities are built through Canada, a route must be chosen that, wherever possible, will bring natural gas to many important markets not now being served.

Realistic pricing will assist in the continued expansion of Canadian industry and will benefit not only the areas served but the entire economy. Unrealistic prices will slow and possibly stop such expansion.

The margin of difference between these two alternatives is narrow and is a matter of great concern to the natural gas industry. It is hoped that the various regulatory authorities are no less conscious of this factor. Canadian industry has discovered in natural gas a form of energy that offers great advantages. Gas has contributed to industrial expansion and increased production at costs which permit a stronger competitive position in world markets.

Competition for Capital Funds

While the present buoyancy of the Canadian economy is likely to continue for at least another year, increased federal, provincial and municipal spending has led to serious competition for capital funds between government and the private sector of the country's economy. As the total supply of such funds is limited, it is of vital importance that sufficient capital should continue to be available, at reasonable cost, for the development of Canadian resources.

Further Expansion

The Company has now become one of the major integrated energy corporations in Canada. We will continue to explore further possibilities of expansion and continually strive to broaden the base of our operations in a prudent manner.

Management is conscious of the fact that achievement of the Company's objectives—past, present and future—depends on the contributions made by all members of the organization. Grateful acknowledgment is made of such assistance.

Board Appointments

During 1966, the board of directors accepted, with regret, the resignations of Mr. Maurice B. Strong and Mr. Gordon P. Osler, both of whose contributions to the Company's affairs have been outstanding. Their places have since been taken by Mr. William I. M. Turner, Jr., president of Power Corporation of Canada, Limited and Mr. E. A. Galvin, president of Canadian Industrial Gas & Oil Ltd. Your directors welcome these gentlemen as colleagues on the board.

During the year, Mr. Donald G. Clark joined the Company as vice-president, administration. His considerable experience and talent in the natural gas and energy industry is a welcome addition to senior management.

The increase in the number of shareholders from 10,737 in 1965 to 18,016 at the end of 1966 has been most gratifying.

C. Spencer Clark
Chairman of the Board

E. C. Bovey
President

REPORT OF OPERATIONS
UTILITIES

Market Acquisition

The target of 12,000 new customers was substantially exceeded to 13,334, increasing total meters to 162,301. Two major achievements in the residential market were the conversion to gas heating of 91 per cent of the 3,079 former customers of the Winnipeg Central Heating Company Limited and the very successful penetration of the new Rouyn-Noranda Northwestern Quebec market, served by the wholly-owned subsidiary, Le Gaz Provincial du Nord de Québec Ltée. Natural gas became available in Rouyn-Noranda on August 18th and, by year's end, 1,737 customers had been connected—approximately one-third of the total market.

Customer Usage

Annual consumption per residential meter rose from 160 mcf in 1965 to 163 mcf in 1966, reflecting the attachment of additional load per customer rather than the effect of weather, since both years were almost equally colder than normal. Annual consumption per commercial meter rose from 1,219 mcf to 1,273 mcf.

Industrial Sales

The major industrial customers served by the Company continued to increase their natural gas requirements during the year. Among the new loads acquired were the iron ore pelletizing plant of Caland Ore Company Limited at Atikokan, the new kraft mill of Great Lakes Paper Company Limited at Fort William, the concentrator of Texas Gulf Sulphur Company near Timmins and the plant of Canada Cement Company Limited at Belleville. Contracts for large additional quantities of gas were signed with Provincial Paper Company Limited, Domtar Newsprint Limited and The International Nickel Company of Canada Limited.

Contracts have been completed, or letters of intent received, for gas deliveries, beginning in 1967 and 1968, from Steep Rock Iron Mines Limited, Noranda Mines Limited, Boise Cascade Corporation, Pickands Mather, Corning Glass Works of Canada Limited, Cornwall Chemicals (Stormont) Limited and Chemcell Limited.

Sales Promotion

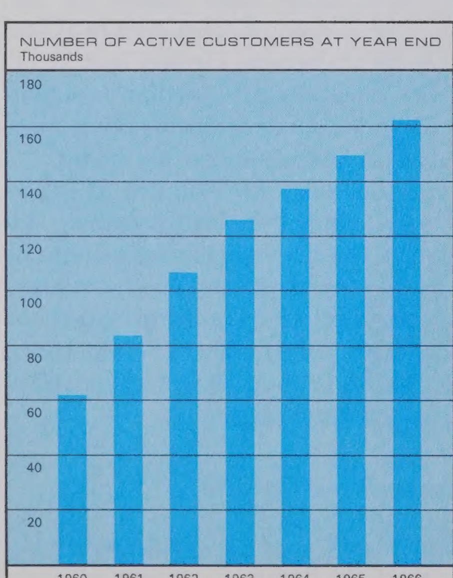
Marketing efforts in 1966 were directed towards a more rapid market penetration in all areas.

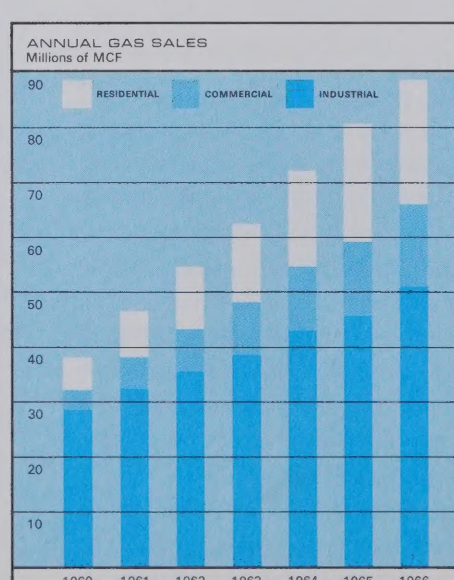
Special attention was given to the continuing development of our dealer organization. The Company's new merchandising policy has been designed as an incentive for our 547 dealers to increase their own sales efforts and to fully develop the market in their communities.

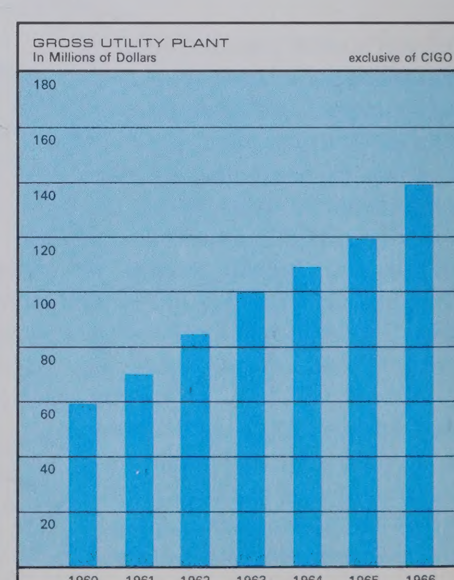
The rental appliance program continues to be well received and is a useful adjunct to the dealers' sales activities. It has now been extended to include commercial water heaters for institutional, commercial and industrial use.

To increase public awareness of the benefits of natural gas, a major advertising project was initiated during the year by Northern and Central Gas, Trans-Canada Pipe Lines, Consumers' Gas and Union Gas. This program, using press, periodical and broadcast media, is designed to stress the advantages of natural gas as a residential fuel, using the theme "Natural Gas—Nature's Wonderfuel".

These same four companies are also included in a group that have sponsored the Natural Gas Hospitality Pavilion at Expo 67 in Montreal. The building will serve as a centre for women's activities at Expo and will show the dominant position natural gas has achieved in the Canadian way of life as we reach Centennial year. A modern image of a modern fuel is created.







The Company's proposed liquefied natural gas storage plant on the Sudbury lateral would store 600 million cubic feet of gas at —259°F. This gas, sent to storage in summer, would be used to meet peak demands in winter. Substantial economies in load balance will result.

Construction

Capital additions for the year totalled approximately $20,000,000. The major projects were:

- The construction of 60 miles of 8 inch transmission line from Earlton, Ontario, to Rouyn-Noranda, to serve Northwestern Quebec.
- A 10 inch, 49 mile transmission line, from English River, Ontario, to Atikokan, Ontario, to serve the two iron ore pelletizing plants of the Steep Rock range.
- Construction of 5 miles of 6 inch transmission lateral at Belleville, Ontario, to serve the plant of Canada Cement.
- Two laterals, totalling about 5 miles, in the Muskoka area of Ontario to serve new industrial plants being brought into production.
- A program to improve the distribution system in Winnipeg to better meet maximum day demands, in addition to acceleration of the schedule for replacement of cast iron mains in the older section of the city.
- In all areas, routine extensions of distribution main for new customers added to existing systems.
- As part of the continuing program of improvement of physical facilities, new business and operations centres in Cochrane and Orillia, similar in design to those built in previous years.

Peak Shaving

Gas supply studies indicate the need for peak shaving facilities which can be directly controlled by the Company. These studies show that a practical solution to this problem would be the installation of a liquefied natural gas plant approximately 40 miles east of Sudbury, Ontario, on our lateral transmission line. Erection of such a plant is tentatively planned to begin in 1967, with completion in July, 1968. The estimated cost of the project is $3,600,000.

The purpose of the plant would be to liquefy natural gas during summer months for storage in a 600 million cubic foot tank for use during winter. This plant would effect a major reduction in the cost of gas against the alternative of purchasing peak day requirements from our supplier.

Staff

Despite the increase in customers and the broadening geographical coverage of our distribution systems, the total number of utility employees rose only slightly to 830 at December 31, 1966, as compared to 806 at December 31, 1965. Increased attention was given to training, with particular emphasis towards the development of the individual employee.

R. B. Craddock

R. B. Craddock
Executive Vice-President

REPORT OF OPERATIONS

PRODUCTION

Canadian Industrial Gas & Oil Ltd. has concluded an active and successful year.

Production and Sales

Sales of natural gas for industrial use increased by 3,861,000 mcf to a total of 33,424,000 mcf.

The propane division (CIGAS) increased sales by 43 per cent, or 10,820,000 gallons, to a sales total of 35,610,000 gallons.

Net oil production increased by 123,205 barrels to 2,609,300 barrels and net gas production increased by 1,833,908 mcf to 24,281,000 mcf.

Gas reserves decreased slightly below 1965 levels and oil reserves increased 30 per cent to 38,600,000 barrels.

Acquisitions

The Company successfully continued its program of acquisitions and, during the year, purchased a number of oil and gas producing properties, as well as other interests.

All outstanding shares of Abasand Oils Limited were acquired and Abasand is now a wholly-owned subsidiary. Abasand holds an interest in the lands that provide raw material for the $230,000,000 extraction plant of Great Canadian Oil Sands Limited which will produce synthetic crude oil from bitumen contained in the Athabasca tar sands. The plant is expected to commence production in late 1967 and Abasand will receive a minimum royalty of 2½¢ per barrel of bitumen used. It is estimated that this will generate an annual income of $550,000 by 1968.

As a result of a one-for-three share exchange offer, the Company acquired 72 per cent of the outstanding shares of Prairie Oil Royalties Company, Ltd. and is now managing that company and its associated British Columbia Oil Lands Ltd. (N. P. L.). Prairie has an average daily net production of 940 barrels of oil and 2,200 mcf of gas. It also owns various interests in leases, minerals, royalties, and permit lands throughout Western Canada and in the Arctic Islands.

All the Canadian properties of Charles P. McGaha were purchased by the Company in 1966.

Exploration—Oil and Gas

The Company jointly undertook extensive seismic programs in the general Rainbow Lake area of Northwestern Alberta in 1966. Of particular interest were East Rainbow, Hay Lake and Zama North, where the Company owns interests in 7,327 gross acres. Before the end of the year, the Company participated in the discovery of an oil pool in the Zama North area. A second well is presently drilling on off-set acreage which was purchased at the Alberta Crown Reserve Sale, held on January 31, 1967.

The Company owns a 20 per cent interest in approximately 50,000 acres of petroleum and natural gas leases located southwest of the Rainbow area on the British Columbia side of the Alberta-B.C. border. This area has attracted considerable attention by reason of its proximity to the Rainbow activity and drilling reservations on adjoining Crown lands have been purchased by other companies at unusually high prices. The area is thought to be a geological extension of the Rainbow trend and it is expected to receive intensive activity during 1967.

In addition to acreage in Northwestern Alberta, acreage was also acquired in Saskatchewan and in Central Alberta, adjacent to the Company's industrial gas system. These land acquisitions were specific to exploratory projects, some of which will be drilled in 1967.

At year end, the Company held an interest in 6,320,067 gross acres, equal to 2,444,288 net acres, compared with 4,868,361 gross and 1,231,116 net acres at December 31, 1965. The Company also held a gross royalty interest in 543,081 acres.

Through its wholly-owned subsidiaries, Canadian Industrial Gas (U.K.) Limited and Northern and Central Gas (U.K.) Limited, the Company now holds production licences covering approximately 233,000 acres in the British sector of the North Sea. In the latter part of the year, the Company participated with the Burmah North Sea Group in drilling a well three-quarters of a mile west of the Company's acreage, thereby earning the right to an interest in a Burmah North Sea Group licence of 550,000 acres. This well, located approximately 15 miles north of Cromer, Norfolk, England, on acreage licenced to Burmah, resulted in a flow at the rate of 2,000 barrels of oil per day and has been capped awaiting further developments. This is the first oil production obtained from the North Sea. By the drilling of the well, the Burmah North Sea Group acquired an option to an interest in the company's licences and two additional wells are planned as a joint venture in 1967. One of these wells will commence drilling on the Northern and Central Gas (U.K.) parcel 48/23 in March, 1967.

Exploration—Mineral

In the Company's continuing program of mineral exploration, three diamond drill holes were sunk on an exploration licence, covering approximately 1,060 acres, in Anglesey, North Wales. One of the diamond drill holes encountered some lead-zinc mineralization. This prospect will be actively continued through 1967.

The Company also participated in a geochemical survey, covering approximately 8,000 square miles, in the Yukon Territory. As a result of several minerals being encountered, primarily copper and zinc, sixty-six claims were staked. The Company holds a 25 per cent interest in this project and further work is planned on a larger scale for similar prospects in 1967.

Propane Gas

The liquefied petroleum gas operations of the Company's wholly-owned subsidiary, Cigas Products Ltd., showed continued growth in 1966. A central storage plant and grid system were installed at Fort McMurray, in northern Alberta, to supply metered propane service to residential, commercial and

The Company's subsidiary, Northern and Central Gas (U.K.) Limited, combined with the Burmah North Sea Group to drill a well in the British sector of the North Sea during the latter part of 1966. This well produced the first oil to be found in the North Sea. A second well, on property under licence to Northern and Central Gas (U.K.), will be drilled early in 1967.

Propane is distributed from bulk storage plants, by direct sale and through dealerships, by CIGAS Products Ltd. from Winnipeg to the West Coast. In addition to residential use, substantial commercial and industrial accounts are serviced. At right is seen a mobile 12,000 gallon bulk storage tank serving a hot-mix asphalt plant.

industrial consumers in the expanding community resulting from the Athabasca tar sands project.

A 50 per cent interest has been acquired in Western Propane Inc., a company engaged in the distribution of propane in the States of Washington and Oregon.

The Future

The acquisition of Canadian Industrial Gas & Oil Ltd. by Northern and Central Gas has permitted CIGO to accelerate its rate of growth. The 1967 capital budget of $13,400,000 is approximately double that for 1966. It provides funds to expand the industrial gas distribution system, to improve production recovery through new processing facilities and plants, for expansion of propane sales and the acquisition of new markets for CIGAS, and funds for a large and varied exploration program in Western Canada, including the Rainbow-Zama area and the established program in the North Sea.

Economists anticipate that the markets for Canadian gas and oil will continue to expand. Recent developments, which have substantially increased oil and gas reserves, have strengthened Canada's position in the continental concept of oil and gas supply.

The Company is in a favourable position to benefit from oil and gas activity during the coming year.

E. A. Galvin

Edward A. Galvin
Executive Vice-President, Production

CONSOLIDATED BALANCE SHEET
as at December 31, 1966

ASSETS	1966	1965
Property, Plant and Equipment, at cost (Note 2)	$212,223,577	$119,513,961
Less—Accumulated depreciation and depletion	36,680,214	8,742,209
	175,543,363	110,771,752
Current Assets		
Cash	1,173,864	607,657
Accounts receivable (including $2,794,161 in 1966 and $2,831,553 in 1965 on merchandise finance plans)	13,010,725	8,534,039
Unbilled gas sales (Note 3)	1,175,207	1,035,992
Materials and supplies, at cost	2,139,733	1,272,728
Prepayments, advances and deposits	466,958	294,380
	17,966,487	11,744,796
Other Assets		
Marketable securities, at cost which approximates quoted market	3,128,751	—
Affiliated companies—shares at cost and advances	809,385	—
Mortgages receivable	591,800	274,590
Real estate held for resale, at cost net of mortgage	134,600	—
Special refundable tax	239,849	—
Note receivable from a director (Note 4)	93,567	—
	4,997,952	274,590
Deferred Charges (Note 5)		
Unamortized debt discount and expense	2,899,248	2,665,184
Unamortized capital stock expense	1,267,842	1,239,218
Other	696,213	733,053
	4,863,303	4,637,455
Premiums Incurred on the Acquisition of Subsidiary Companies, less amortization (Note 6)	12,326,515	12,419,123
	$215,697,620	$139,847,716

Approved on behalf of the Board:

C. Spencer Clark, Director.

Edmund C. Bovey, Director.

SHAREHOLDERS' EQUITY	1966	1965
Capital Stock		
Authorized—		
300,000 First preference shares with a par value of $50 each, issuable in series		
391,775 Second preference shares with a par value of $25 each, issuable in series		
30,000,000 Common shares without par value		
Issued—(Note 7)		
160,000 $2.60 cumulative first preference shares, 1965 series, currently redeemable at $52.50 per share	$ 8,000,000	$ 8,000,000
316,775 $1.06 cumulative convertible second preference shares, series A, redeemable at $27.50 per share	7,919,375	8,122,500
11,126,604 Common shares	51,605,555	26,279,407
Contributions in Aid of Construction	277,707	229,120
Retained Earnings (Note 8)	10,311,598	6,488,852
	78,114,235	49,119,879
LIABILITIES		
Long-Term Debt		
Funded debt (Note 9)	86,448,520	64,476,200
Bank loans (Note 10)	14,958,000	7,500,000
Other (Note 11)	591,414	249,434
	101,997,934	72,225,634
Minority Interest in Subsidiary Companies (Note 12)	12,183,652	3,181,063
Deferred Rental Income	433,183	—
Current Liabilities		
Bank loans ($6,221,455 secured)	8,345,455	5,704,000
Accounts payable and accrued	10,804,752	6,097,927
Accrued interest on funded debt	792,559	646,223
Preferred dividend on a subsidiary	109,857	—
Income and other taxes	723,663	860,490
Current maturity on funded debt	2,192,330	2,012,500
	22,968,616	15,321,140
	$215,697,620	$139,847,716

Luke
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CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended December 31, 1966

	1966	(Note 1) 1965
Operating Revenue		
Gas sales	$56,115,027	$50,811,398
Other	1,670,319	1,369,139
	57,785,346	52,180,537
Operating Expenses		
Operations and maintenance	40,460,748	36,595,899
Depreciation	3,207,265	2,749,656
Amortization of conversion costs	130,234	130,234
Taxes, other than income taxes	1,337,084	1,180,051
Provision for income taxes (Note 13)	1,443,221	1,089,579
	46,578,552	41,745,419
Operating Income	11,206,794	10,435,118
Other Income		
* Portion of income earned by Canadian Industrial Gas & Oil Ltd. since acquisition (Note 1)	2,244,854	—
Other (including interest from merchandise finance plans)	401,613	453,009
Total Operating and Other Income	13,853,261	10,888,127
Interest and Other Deductions		
Interest, less $177,778 capitalized in 1966	4,901,290	4,338,728
Amortization of debt and capital stock expense	222,028	202,831
Provision for minority interests	57,342	46,442
Loss on U.S. exchange—net	60,430	60,714
Other	57,167	7,979
	5,298,257	4,656,694
Net Income	8,555,004	$ 6,231,433
Retained Earnings at January 1, 1966	6,488,852	
Gain on issuance of subsidiary's common shares (Note 14)	74,059	
	15,117,915	
Deductions—		
Dividends on preference shares	880,698	
Dividends on common shares	3,020,920	
Amortization of acquisition premiums (Note 6)	268,890	
Subsidiary acquisition costs (Note 1)	635,809	
	4,806,317	
Retained Earnings at December 31, 1966 (Note 8)	$10,311,598	

-1/2
8.56
5,60

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 1966

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of Northern and Central Gas Company Limited (the "Company") for the year ended December 31, 1966 include the accounts of all its subsidiaries. The major subsidiaries included, together with the percentage ownership at December 31, 1966, are as follows:

Canadian Industrial Gas & Oil Ltd.	86.1%
Greater Winnipeg Gas Company	98.9%
Lakeland Natural Gas Limited	98.8%
Twin City Gas Company Limited	98.9%

The Company acquired 76% of the common shares of Canadian Industrial Gas & Oil Ltd. outstanding at July 15, 1966. Subsequent acquisitions resulted in an 86.1% ownership of that subsidiary's common shares at December 31, 1966. The Company acquired 94.9% of the outstanding common shares of Greater Winnipeg Gas Company as of December 13, 1965 and a further 4% acquisition of the common shares during 1966. On February 12, 1965 the Company acquired 46.9% of the then outstanding common shares of Lakeland Natural Gas Limited with a further acquisition, effective June 30, 1965, resulting in a 97.5% ownership at December 31, 1965. The Company acquired an additional 1.3% of Lakeland Natural Gas Limited common shares in 1966.

The 1965 comparative figures on the consolidated balance sheet do not include the assets and liabilities of Canadian Industrial Gas & Oil Ltd. acquired during 1966.

The consolidated statement of income and retained earnings for the year ended December 31, 1966 reflects the operations of the Company and all its subsidiaries except those of Canadian Industrial Gas & Oil Ltd. The Company's proportion of that subsidiary's 1966 income earned since the dates of acquisition is reported separately under Other Income. Costs incurred in connection with the acquisition of Canadian Industrial Gas & Oil Ltd. have been charged against retained earnings.

For comparative purposes the 1965 income figures have been restated from those previously reported to show what the results of operations for 1965 would have been if the Company's percentage of ownership held at December 31, 1966 in Greater Winnipeg Gas Company and Lakeland Natural Gas Limited had been acquired as of January 1, 1965.

2. PROPERTY, PLANT AND EQUIPMENT

Fixed assets at December 31, 1966 consist of the following:

	Cost	Accumulated Depreciation and Depletion
Utility plants consisting of land, structures, gas distribution systems, gas processing plants, other equipment, preliminary development and franchise acquisition costs, etc.	$156,282,246	$ 17,224,788
Gas and oil properties and related equipment	55,941,331	19,455,426
	$212,223,577	$ 36,680,214

Cost of gas and oil properties is determined by capitalizing all costs related to the exploration for and development of gas and oil reserves, whether productive or non-productive.

Utility plants are being depreciated over their estimated useful life. Gas and oil properties are being depleted on a composite unit-of-production method based on total estimated reserves.

3. UNBILLED GAS SALES

Unbilled gas sales at December 31, 1966 are valued as follows:

The Company and its subsidiaries, Twin City Gas Company Limited and Le Gaz Provincial du Nord de Québec Ltée, at selling price	$1,084,050
Lakeland Natural Gas Limited, at cost of unbilled gas	91,157
	$1,175,207

Greater Winnipeg Gas Company does not account for unbilled gas sales.

NOTES CONTINUED

4. NOTE RECEIVABLE FROM A DIRECTOR

This represents an amount advanced to an officer of a subsidiary prior to the Company's acquisition of that subsidiary. The security for this advance is an interest-free promissory note repayable in varying annual amounts to 1977. Subsequently, the officer was appointed a director of the Company.

5. DEFERRED CHARGES

Debt discount and expense is being amortized over the life of the applicable issues.

Capital stock expense is being amortized by the Company over periods not exceeding 25 years. Lakeland Natural Gas Limited is amortizing its capital stock expense, applicable to preference shares, on a basis of $1.17 per preference share redeemed. $58,238 applicable to common shares is not being amortized. Greater Winnipeg Gas Company has not commenced amortizing its capital stock expense amounting to $219,804.

Other deferred charges at December 31, 1966 include $520,937 of unamortized costs relating to the conversion to natural gas in Winnipeg.

6. PREMIUMS INCURRED ON THE ACQUISITION OF SUBSIDIARY COMPANIES

The Company incurred these premiums in its acquisition of the common shares of Twin City Gas Company Limited and Lakeland Natural Gas Limited. The premiums resulted from acquiring these common shares either for cash or by share exchange offers at the then approximate market values which were in excess of the underlying book values of the assets acquired. The premiums are being amortized at a rate approximating that used to depreciate the Company's utility plant.

7. CAPITAL STOCK

The shares of various classes of capital stock of the Company issued, converted or redeemed during 1966 are summarized as follows:

	First Preference Shares, 1965 Series		Second Preference Shares, Series A		Common Shares	
	No. of Shares	Par Value	No. of Shares	Par Value	No. of Shares	Consideration
Balance December 31, 1965	160,000	$8,000,000	324,900	$8,122,500	3,212,378	$26,279,407
Issued—						
Subdivision of Common Shares	—	—	—	—	3,212,378	—
For cash—						
Incentive stock option plan	—	—	—	—	1,400	14,788
Employees' share purchase plan	—	—	—	—	471	6,798
In exchange for shares of—						
Greater Winnipeg Gas Company	—	—	—	—	126,135	564,367
Canadian Industrial Gas & Oil Ltd.	—	—	—	—	4,573,842	24,740,195
Redeemed	—	—	(8,125)	(203,125)	—	—
Balance December 31, 1966	160,000	$8,000,000	316,775	$7,919,375	11,126,604	$51,605,555

The First Preference Shares, 1965 Series do not have voting rights.

The Second Preference Shares, Series A are convertible into a maximum of 506,840 Common Shares.

On June 24, 1966, each of the issued and unissued Common Shares were subdivided into two Common Shares.

40,000 Common Shares of the Company were set aside in 1966 under the provisions of the Employees' Share Purchase Plan. During the year, 471 Common Shares were issued. At December 31, 1966, subscriptions to purchase 5,685 Common Shares at prices ranging from $10.28 to $14.49 per share were outstanding.

The consideration for the Common Shares issued in exchange for shares of subsidiaries was equivalent to the book value of the net assets attributable to the shares acquired.

Subsequent to December 31, 1966, 144,717 Common Shares were issued in exchange for 144,717 common shares of Canadian Industrial Gas & Oil Ltd.

The Company has reserved 125,000 Common Shares for possible issuance in exchange for 125,000 common shares of a subsidiary presently under option to certain employees of that subsidiary.

NOTES CONTINUED

Warrants and employees' options granted, exercised and outstanding with respect to the Company's Common Shares are summarized as follows:

	Balance Outstanding Dec. 31/65	Subdivision of Common Shares	Granted	Exercised	Balance Outstanding Dec. 31/66	Price per Share	Expiry Date
Warrants	10,000	10,000	—	—	20,000	$ 9.25	February 21, 1969
Incentive Stock Option Plan	2,100	2,100	—	1,400	2,800	10.5625	March 9, 1967
	4,500	4,500	—	—	9,000	14.625	May 12, 1970
	6,600	6,600	—	1,400	11,800		
Stock Option Plan	—	—	146,000	—	146,000	15.3175	January 11, 1971
	—	—	143,500	—	143,500	16.00	February 10, 1971
	—	—	10,000	—	10,000	14.03125	May 17, 1971
	—	—	120,000	—	120,000	12.94	July 11, 1971
	—	—	419,500	—	419,500		
	16,600	16,600	419,500	1,400	451,300		

The options granted under the Stock Option Plan include 19,500 subject to approval by the shareholders of the Company.

8. DIVIDEND RESTRICTIONS

Under the terms of the Deed of Trust and Mortgage, as amended, securing the Company's First Mortgage and Collateral Trust Bonds, the Company is restricted as to the amount of dividends that can be declared or paid. A calculation as of March 7, 1967, made in conformity with the aforementioned terms, determined that as at December 31, 1966 retained earnings in the amount of $8,346,000 were so restricted.

9. FUNDED DEBT

Funded debt consists of the following:

	Year of Maturity	Sinking Fund Instalment Due 1967	Balance as at December 31 1966	1965
Northern and Central Gas Company Limited				
First Mortgage and Collateral Trust Bonds				
6% Series	1978	$316,000	$ 5,003,000	$ 5,319,000
5½% Series, payable in U.S. Funds	1978	234,000	3,698,000	3,932,000
5¾% Series	1982	225,000	4,325,000	4,550,000
5¾% Series	1983	225,000	5,550,000	5,775,000
6½% Series	1986	—	12,000,000	—
6% Notes, payable in U.S. funds	1975	140,000	1,720,000	1,860,000
5¾% Subordinated Debentures	1982	150,000	7,400,000	7,550,000
6% Subordinated Sinking Fund Debentures	1985	235,000	4,465,000	4,700,000
Greater Winnipeg Gas Company				
First Mortgage Bonds				
5¾% Series A	1978	162,500	5,687,500	5,850,000
6% Series B	1981	125,000	4,750,000	4,875,000
6% Series C	1982	125,000	4,875,000	5,000,000
5¾% Series D	1984	—	6,500,000	6,500,000
6% Debentures	1979	75,000	2,125,000	2,200,000
5½% Subordinated Debentures	1980	—	1,695,500	1,695,500
Lakeland Natural Gas Limited				
6% Subordinated Debentures	1982	72,200	6,682,200	6,682,200
Canadian Industrial Gas & Oil Ltd.				
5⅞% First Mortgage Sinking Fund Bonds ($11,000,000 U.S. funds)	1983	—	11,845,021	—
6% Secured Debentures	1969	39,000	175,000	—
6% Notes	1971	68,630	144,629	—
			88,640,850	66,488,700
Less—				
Payments due within one year included in current liabilities			2,192,330	2,012,500
			$86,448,520	$64,476,200

Funded debt issues payable in United States dollars are stated at par of exchange except for the 5⅞% First Mortgage Sinking Fund Bonds of Canadian Industrial Gas & Oil Ltd. which are stated at par plus U.S. exchange.

NOTES CONTINUED

10. BANK LOANS

Northern and Central Gas Company Limited	
6% Demand loan incurred during 1966 to be repaid out of proceeds from a 1967 funded debt issue	$ 12,000,000
Canadian Industrial Gas & Oil Ltd.	
6% Loan repayable in monthly instalments of $66,000 to 1972 (1967 instalments included in current bank loans) secured by producing properties	2,958,000
	$ 14,958,000

11. OTHER LONG-TERM DEBT

This amount consists of 6¾% and 7% mortgages of a subsidiary company repayable in monthly instalments of $1,935 including principal and interest, through to 1984 and an interest-free purchase agreement of $350,000 repayable by a subsidiary company in annual instalments from 1967 to 1970. The principal amounts repayable in 1967 have not been included in current liabilities.

12. MINORITY INTEREST IN SUBSIDIARY COMPANIES

Minority interests in subsidiary companies are applicable to:	
Preferred shares of subsidiaries	$ 6,195,800
Common shares equity of subsidiaries	5,987,852
	$ 12,183,652

Canadian Industrial Gas & Oil Ltd. has 399, 480 preferred shares ($10 par value) outstanding at December 31, 1966 which are convertible into common shares on a basis of four common shares for five preferred shares until July 1, 1973, thereafter redeemable at par. At December 31, 1966 there were options outstanding to purchase 210,000 common shares at a price of $10 per share exercisable at various times to October 12, 1972.

Lakeland Natural Gas Limited has 110,050 preference shares ($20 par value) outstanding at December 31, 1966, currently redeemable at $20.70. In accordance with the terms of issue 2,250 preference shares must be purchased for redemption annually if available at par or less. During the year 2,450 preference shares were purchased. At December 31, 1966 there were share purchase warrants outstanding which entitled the holders thereof to purchase 12,591 common shares of Lakeland Natural Gas Limited at prices ranging from $4 currently to $10 per share. These warrants expire on June 30, 1978.

13. INCOME TAXES

The provision for income taxes for the year ended December 31, 1966 is $2,612,000 less than would otherwise have been provided because of the policy of (1) capitalizing or deferring certain expenditures that must be claimed for income tax purposes in the year incurred and (2) claiming capital cost allowances for income tax purposes at rates in excess of those used to record depreciation in the accounts.

The net book value of property, plant and equipment (excluding gas and oil properties) amounted to $142,302,706 at December 31, 1966. The amount of undepreciated capital cost that can be claimed for income tax purposes in future periods approximates	$115,500,000
The net book value of gas and oil properties amounted to $33,240,657 at December 31, 1966. The amount of expenditures, included therein, that may be applied against taxable income in future periods approximates	4,800,000
	$120,300,000

NOTES CONTINUED

14. GAIN ON ISSUANCE OF SUBSIDIARY'S COMMON SHARES

Subsequent to the Company's acquisition of Canadian Industrial Gas & Oil Ltd. in 1966, the latter company issued additional common shares in exchange for preferred shares converted. As the consideration received on each common share so issued exceeded the average cost per share of the Company's investment in Canadian Industrial Gas & Oil Ltd., the Company's proportion of common share equity in that subsidiary has increased and the resultant gain was credited to consolidated retained earnings.

15. PENSIONS

Greater Winnipeg Gas Company has an unfunded liability for past service in the amount of $50,500 payable over four years.

16. CAPITAL EXPENDITURES

It is estimated that the companies will expend approximately $33,500,000 on capital projects during the year ending December 31, 1967.

17. CONTINGENT LIABILITY

A claim for commissions in the amount of $287,682 submitted to the Company in 1965, with respect to the acquisition of the common shares of Lakeland Natural Gas Limited, is still outstanding. On the advice of counsel, the Company is disputing the claim and accordingly no provision has been made in the accounts of the Company.

18. DIRECTORS' FEES

Directors' fees for the Company and its subsidiaries aggregated $50,017 in 1966.

19. RATE BASE AND RATE OF RETURN HEARINGS

At the request of The Public Utilities Board of Manitoba and The Ontario Energy Board public hearings commenced during 1966 with respect to the rate base and rate of return for two of the Company's subsidiaries, Greater Winnipeg Gas Company and Lakeland Natural Gas Limited. No decision has been handed down by either Board to date.

With the introduction of Ontario Regulations 245/66 by The Ontario Energy Board, effective January 1, 1967, the Company and its subsidiary, Twin City Gas Company Limited, intend to apply to the Board to have their expenses reviewed on a basis that allows, as a cost of service, only those income taxes payable in respect of the year under examination.

20. SUBSEQUENT EVENTS

On February 24, 1967, the Directors authorized, subject to shareholders' approval, an application for supplementary letters patent to increase the authorized capital of the Company by the creation of an additional 303,200 first preference shares with a par value of $50 each and an additional 1,608,225 second preference shares with a par value of $25 each.

The Company, under date of March 3, 1967, made an offer to the shareholders of Quebec Natural Gas Corporation to purchase 2,150,000 common shares of that company at a price of $14 per share. The Company is not obligated to purchase any shares if less than 2,150,000 shares are tendered.

RIDDELL, STEAD, GRAHAM & HUTCHISON
CHARTERED ACCOUNTANTS

48 YONGE STREET
TORONTO 1, ONTARIO

AUDITORS' REPORT

To the Shareholders
Northern and Central Gas Company Limited

We have examined the accompanying consolidated financial statements of Northern and Central Gas Company Limited and subsidiary companies for the year ended December 31, 1966 comprising the consolidated balance sheet as at that date and the consolidated statement of income and retained earnings for the year then ended. Our examination of the financial statements of Northern and Central Gas Company Limited and those subsidiaries of which we are auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion the aforementioned consolidated financial statements when read in conjunction with Note 1 (Principles of Consolidation) present fairly the financial position of the companies as at December 31, 1966 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 7, 1967

Riddell, Stead, Graham & Hutchison

CONSOLIDATED STATEMENT OF INCOME

Years ended December 31, 1966 and 1965

	1966	(Note 1) 1965
Sales, service and other operating income	$19,528,409	$17,357,697
Deduct:		
Gas and merchandise purchased	4,782,737	3,629,368
Selling, operating and administrative expenses	5,426,220	4,649,955
Interest on bank loans and other long term debt	1,060,359	997,029
	11,269,316	9,276,352
Income before the following	8,259,093	8,081,345
Deduct:		
Provision for depletion	1,631,637	1,487,900
Provision for depreciation	1,439,311	1,388,059
Minority interest in income of subsidiary	84,492	125,665
	3,155,440	3,001,624
Net income (Note 3)	5,103,653	5,079,721
Special item—net gain on disposal of investments	443,056	—
Net income and special item	$ 5,546,709	$ 5,079,721

(See accompanying notes)

AUDITORS' REPORT

To the Directors of Canadian Industrial Gas & Oil Ltd.

We have examined the consolidated statement of income of Canadian Industrial Gas & Oil Ltd. and its subsidiaries for the year ended December 31, 1966 and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the companies, the consolidated statement mentioned above is properly drawn up so as to exhibit a true and correct view of the results of operations of Canadian Industrial Gas & Oil Ltd. and its subsidiaries for the year ended December 31, 1966 on the basis described in Note 1, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
March 7, 1967.

Clarkson, Gordon & Co.
Chartered Accountants

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

December 31, 1966

1. BASIS OF CONSOLIDATION

The consolidated statement of income for the year ended December 31, 1966 includes the accounts of Canadian Industrial Gas & Oil Ltd. and all its subsidiaries. The excess of the cost of shares of purchased subsidiaries over the underlying net book value of their assets at dates of acquisition has been included in property, plant and equipment and is being systematically amortized over the estimated useful lives of the assets.

During 1966 Abasand Oils, Limited and Prairie Oil Royalties Company, Ltd. became subsidiaries as a result of share exchange offers made by the Company. The acquisitions of these two subsidiaries have been accounted for on a pooling of interests basis and accordingly their operations have been included for the full year.

In addition, the 1965 figures shown herein for comparative purposes have been restated from those previously reported to include the operations of the two subsidiaries acquired during 1966. Where applicable, the accounts of these subsidiaries have been adjusted to conform with accounting practices followed by the Company.

2. ACCOUNTING POLICIES

The companies follow the practice of capitalizing all costs related to the exploration for and development of oil and gas reserves, whether productive or non-productive, and of depleting such costs on a composite unit of production method based on total estimated reserves.

Depreciation of pipelines, plant and equipment is being provided at rates which will amortize original costs over the estimated useful lives of the respective assets.

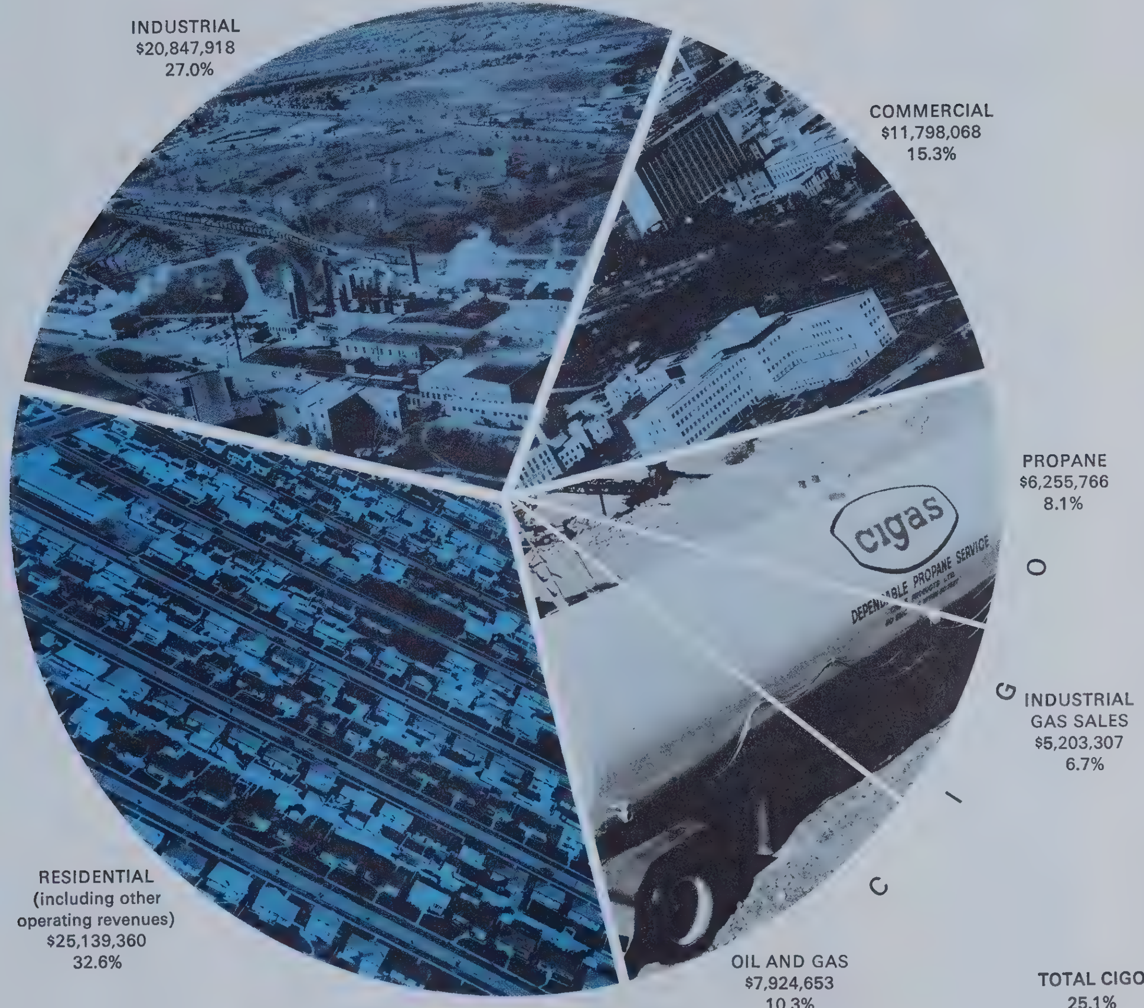
3. INCOME TAXES

Under Canadian income tax law, drilling, exploration and property acquisition costs, which are capitalized in the accounts, are deductible from income in the year incurred or, if expenditures exceed income for the year, the excess may be carried forward to subsequent years. As a result, income taxes for the year ended December 31, 1966 have been eliminated and an excess ($4,800,000) of such expenditures remains to be carried forward and applied against future taxable income. In addition the companies claim depreciation for income tax purposes in excess of the amounts recorded in the accounts. At December 31, 1966 the net book value of depreciable fixed assets exceeds the amount upon which depreciation will be allowed for income tax purposes in the future by $3,400,000.

4. REMUNERATION OF DIRECTORS AND OFFICERS

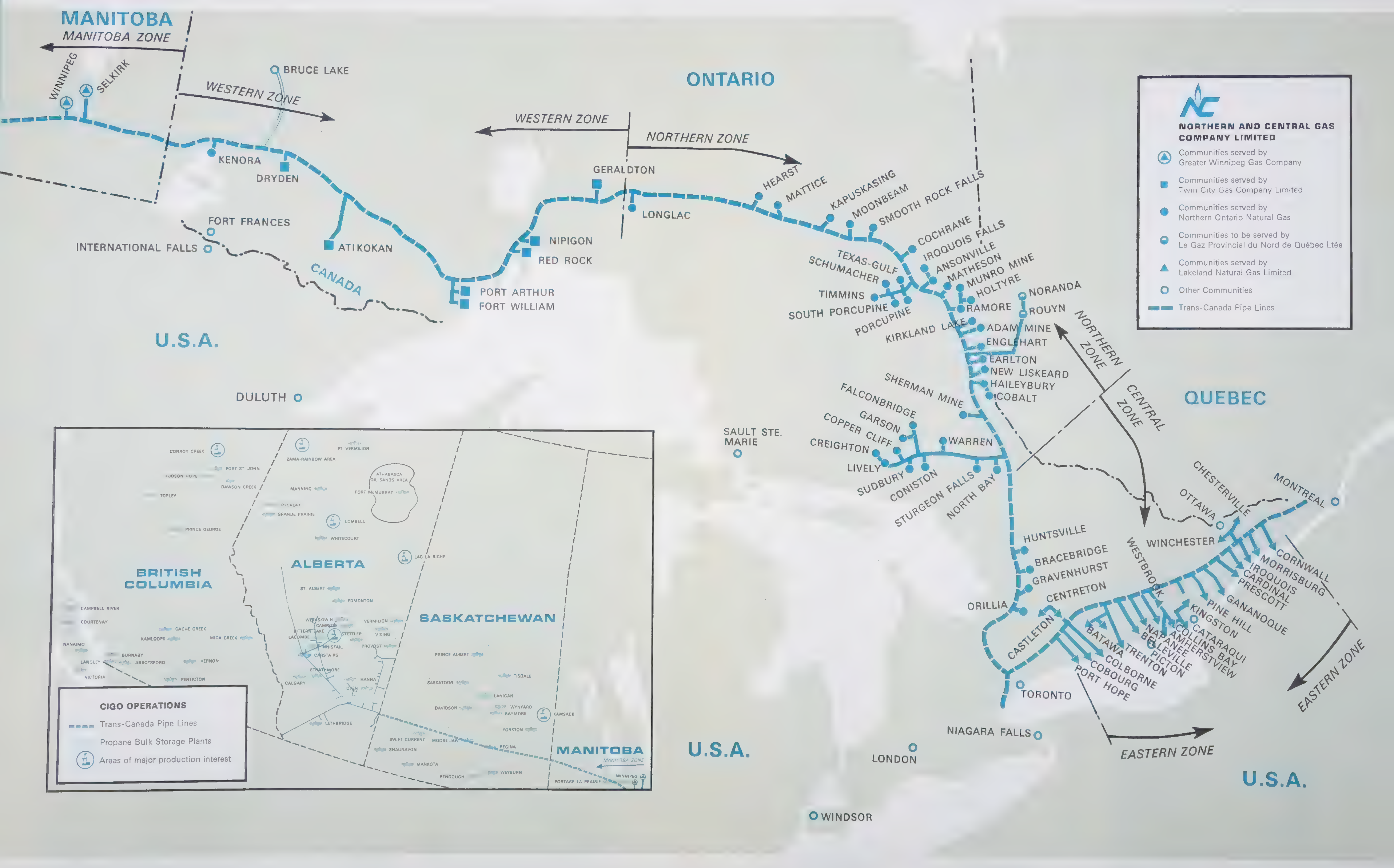
Included in selling, operating and administrative expenses in the 1966 consolidated statement of income is remuneration of directors and officers of $214,487.

COMPOSITION OF OPERATING REVENUE



As seen in the above graph, the residential, commercial and industrial sales of Northern and Central, together with CIGO's propane and industrial gas sales, provide almost 90 per cent of the Company's operating revenue.

AREA SERVED BY NORTHERN AND CENTRAL GAS COMPANY LIMITED AND SUBSIDIARY COMPANIES



SEVEN YEAR STATISTICAL COMPARISON

NORTHERN AND CENTRAL GAS COMPANY LIMITED AND SUBSIDIARY COMPANIES

Not in

			1966(A)	1966(B)	1965	1964(C)	1963	1962	1961	1960
OPERATING REVENUES	Gas Sales									
	Industrial Firm	$	11,766,634	11,766,634	9,848,453	6,290,706	5,423,686	4,681,271	4,471,971	3,827,774
	Industrial Subject to Curtailment		9,081,284	9,081,284	9,092,544	6,324,759	6,048,002	5,997,028	5,273,816	5,403,157
	Commercial		11,798,068	11,798,068	10,463,165	3,592,162	3,176,036	2,660,080	2,125,025	1,555,016
	Residential		23,469,041	23,469,041	21,407,236	7,755,235	6,655,446	5,372,147	3,912,064	2,401,300
	Other Operating Revenue		21,054,045①	1,670,319	1,369,139	450,645	306,323	129,937	54,407	7,405
	Total Operating Revenue	$	77,169,072	57,785,346	52,180,537	24,413,507	21,609,493	18,840,463	15,837,283	13,194,652
OPERATING EXPENSES AND TAXES	Gas Purchased	$	33,023,765	33,023,765	29,930,176	16,028,526	14,024,311	12,556,147	10,635,095	9,414,189
	Operation and Maintenance		17,645,940	7,436,983	6,665,723	2,652,193	2,523,652	2,074,459	1,864,046	1,088,072
	Depreciation, Depletion and Amortization		6,408,447	3,337,499	2,879,890	1,090,708	946,124	713,094	429,655	360,735
	Taxes – Other than Income		1,337,084	1,337,084	1,180,051	340,851	277,590	258,642	230,555	216,008
	Taxes – Income		1,443,221	1,443,221	1,089,579	8,978	8,050	8,050	8,200	8,500
	Total Operating Expenses	$	59,858,457	46,578,552	41,745,419	20,121,256	17,779,727	15,610,392	13,167,551	11,087,504
	Operating Income	$	17,310,615	11,206,794	10,435,118	4,292,251	3,829,766	3,230,071	2,669,732	2,107,148
OTHER INCOME	Other Income	$	989,352	401,613	453,009	96,768	113,662	177,784	221,097	170,138
	Gross Income	$	18,299,967	11,608,407	10,888,127	4,389,019	3,943,428	3,407,855	2,890,829	2,277,286
INTEREST AND OTHER DEDUCTIONS	Interest	$	5,961,649	4,901,290	4,338,728	2,162,611	2,085,843	1,722,816	1,535,727	1,375,403
	Amortization of Deferred Charges		222,028	222,028	202,831	135,128	127,756	99,321	68,999	38,155
	Provision for Minority Interest		881,455	57,342	172,783	15,709	15,398	19,284	42,939	26,008
	Loss on U.S. Exchange and Other		117,597	117,597	68,693	52,394	153,343	89,761	—	—
	Total Interest and Other Deductions	$	7,182,729	5,298,257	4,783,035	2,365,842	2,382,340	1,931,182	1,647,665	1,439,566
	Net Income	$	11,117,238	6,310,150	6,105,092	2,023,177	1,561,088	1,476,673	1,243,164	837,720
EARNINGS AND DIVIDENDS	Dividends Paid on Preference Shares	$	1,116,711	880,698	881,900	113,557	120,000	120,000	120,000	90,000
	Earnings Available for Common Shares	$	10,000,527	5,429,452	5,223,192	1,909,620	1,441,088	1,356,673	1,123,164	747,720
	Common Shares Outstanding at Year End		11,126,604	6,552,762	3,212,378	1,548,941	1,407,551	1,384,251	1,371,921	1,296,156
	Earnings per Common Share	$	0.90②	0.83②	1.63	1.23	1.02	0.98	0.82	0.58
	Cash Dividends paid on Common Shares	$	3,020,920	—	988,763	822,097	698,399	346,029	—	—
	Cash Dividend per Common Share	$	.3375②	.3375②	0.60③	0.55③	0.50③	0.25③	—	—
FINANCIAL DATA	Property, Plant and Equipment	$	212,223,577	139,461,032	119,513,961	53,963,402	50,034,634	43,947,858	35,970,501	31,058,445
	Accumulated Depreciation and Depletion	$	36,680,214	11,406,880	8,742,209	2,858,577	2,058,404	1,369,316	813,051	419,315
	Deferred Charges – Unamortized Debt Discount and Expenses	$	2,899,248	2,674,872	2,665,184	1,757,331	1,819,841	1,777,325	1,467,271	1,473,817
	– Unamortized Capital Stock Expense	$	1,267,842	1,267,842	1,239,218	192,604	246,137	272,718	296,795	306,964
	– Other	$	696,213	696,213	733,053	216,373	90,264	109,879	42,539	46,831
	Long-Term Debt	$	101,997,934	86,632,914	72,225,634	36,691,000	35,142,560	32,669,465	21,901,000	23,451,000
	Shareholders' Equity	$	78,114,235	—	49,119,879	16,869,374	13,822,751	12,733,692	11,550,867	9,325,202
	Common Shareholders' Equity – Total	$	62,194,860	—	32,997,379	15,368,724	11,822,751	10,733,692	9,550,876	7,325,202
	Common Shareholders' Equity – per Share	$	5.59②	—	10.27	9.92	8.40	7.75	6.96	5.65
	Current Assets	$	17,966,487	12,124,046	11,744,796	5,068,572	5,061,203	5,491,166	4,147,933	4,149,777
	Current Liabilities	$	22,968,616	17,633,835	15,321,140	4,701,644	6,167,386	6,618,601	9,419,224	4,925,430
	Working Capital (Deficit)		(5,002,129)	(5,509,789)	(3,576,344)	366,928	(1,106,183)	(1,127,435)	(5,271,291)	(775,653)
	Year End Price Common Shares (T.S.E.)		13⅜②	13⅜②	29¼	22⅞	18½	17¼	20	13⅝
	Number of Shareholders – Common		15,882	—	8,560	5,457	5,831	6,144	6,347	6,471
	Number of Shareholders – Preferred		2,134	—	2,177	393	447	471	514	597
SYSTEM DATA	Miles of Pipe at Year End – Distribution and Transmission		2,959	2,618	2,388	1,001	968	931	749	703
	Expenditures for Plant Additions	$	27,485,430	19,947,071	11,815,105	3,928,768	4,242,593	7,977,357	4,912,056	4,760,603
	Active Customers at Year End – Industrial			423	402	106	110	96	92	88
	– Commercial			12,853	11,998	4,221	3,860	3,277	2,755	2,277
	– Residential			149,025	136,567	48,607	44,651	39,052	29,539	19,810
	– Total			162,301	148,967	52,934	48,621	42,425	32,386	22,175
	Number of Employees			843	806	322	304	284	268	207
	Number of Communities Served			95	88	40	40	40	37	36
	Number of Franchises Held			119	132	70	70	70	58	58
MARKET DATA	Potential Market on Main – Number of Customers			245,727	234,588	77,842	75,932	73,865	50,670	46,632
	Market on Main Sold	%		66.0	63.5	68.0	64.0	57.4	63.9	47.6
GAS DELIVERIES AND SUPPLY	Gas Sales – Industrial Firm	MCF		24,861,309	20,484,723	13,462,878	11,584,714	10,177,617	9,557,569	8,620,634
	– Industrial Subject to Curtailment	MCF		25,455,022	25,290,613	17,229,234	16,507,127	16,584,077	14,713,547	14,761,365
	– Commercial	MCF		15,766,111	13,831,354	4,728,448	4,004,298	3,344,885	2,589,406	1,836,564
	– Residential	MCF		22,514,942	20,486,351	6,031,029	5,261,790	4,225,021	3,101,622	1,927,178
	– Total	MCF		88,597,384	80,093,041	41,451,589	37,357,929	34,331,600	29,962,144	27,145,741
	Degree Day Deficiency – Actual Manitoba Zone	DDD		11,792	11,531	10,832	10,059	10,701	10,239	10,602
	– Actual Western Zone	DDD		10,741	11,004	10,628	10,646	10,631	9,944	10,323
	– Actual Northern Zone	DDD		11,990	12,317	12,012	11,944	11,804	11,382	11,622
	– Actual Central Zone	DDD		9,951	10,081	9,535	9,846	9,689	9,467	9,501
	– Actual Eastern Zone	DDD		7,772	8,152	7,389	7,314	7,471	7,378	7,307
	Degree Day Deficiency – Average Manitoba Zone	DDD		10,633	10,535	10,535	10,535	10,535	10,535	10,535
	– Average Western Zone	DDD		10,405	10,405	10,347	10,340	10,340	10,340	10,340
	– Average Northern Zone	DDD		11,750	11,750	11,750	11,750	11,750	11,750	11,750
	– Average Central Zone	DDD		9,850	9,880	9,880	9,880	9,880	9,880	9,880
	– Average Eastern Zone	DDD		7,510	7,470	7,470	7,470	7,470	7,470	7,470
	Degree Day Deficiency – Percent Actual to Average									
	Manitoba Zone	%		110.9	109.4	102.8	95.5	101.6	97.2	100.6
	Western Zone	%		103.2	105.8	102.7	103.0	102.8	96.2	99.8
	Northern Zone	%		102.0	104.8	102.2	101.7	100.5	96.9	98.9
	Central Zone	%		101.0	102.0	96.5	99.7	98.1	95.8	96.2
	Eastern Zone	%		103.5	109.1	98.9	97.9	100.0	98.8	97.8
	Natural Gas Under Contract									
	Daily Contract Demand – Manitoba Zone	MCF		131,000	115,000	108,000	96,000	76,000	63,000	46,900
	– Western Zone	MCF		62,000	50,500	44,000	43,500	42,000	38,000	33,000
	– Northern Zone	MCF		86,000	80,000	74,000	69,667	58,000	52,000	44,000
	– Central Zone	MCF		6,300	5,800	5,800	5,800	5,800	5,000	3,500
	– Eastern Zone	MCF		30,000	24,550	22,450	20,300	17,357	11,907	9,595
	– Total	MCF		315,300	275,850	254,250	235,267	199,157	169,907	136,995
RATIOS AND AVERAGES	Average Use per Customer④ – Industrial	MCF		121,244	116,476	284,186	260,110	278,228	263,424	267,226
	– Commercial	MCF		1,273	1,219	1,187	1,129	1,073	1,001	994
	– Residential	MCF		163	160	136	133	130	137	144
	Average Revenue per MCF – Industrial	$		0.414	0.414	0.411	0.408	0.399	0.401	0.395
	– Commercial	$		0.748	0.756	.760	.793	.795	.821	.847
	– Residential	$		1.12	1.11	1.29	1.26	1.27	1.26	1.25
	Average Revenue per Customer – Industrial	$		50,195	48,221	116,800	106,125	111,013	105,633	105,554
	– Commercial	$		952	922	902	895	853	821	842
	– Residential	$		182	178	175	168	165	173	180
	Number of Feet (Distribution Main) per Customer			70	72	71	82	90	89	118
	Number of Customers per Employee			192	185	164	160	149	121	107
	Total Operating Expenses per Customer Exclusive of Cost of Gas, Taxes, Depreciation and Interest	$		45.82	44.75	50.10	51.90	48.90	57.56	49.07
	Total Operating Expenses to Total Operating Revenues	%	77.6	80.6	80.0	82.4	82.3	82.9	83.1	84.0
	Operating Income to Net Plant	%	9.9	8.8	9.4	8.4	8.0	7.6	7.6	6.9
	Long-Term Debt to Plant	%	48.1	62.1	60.5	68.0	70.2	74.3	60.9	75.5
	Long-Term Debt times Common Shareholders' Equity		1.6		2.2	2.4	3.0	3.0	2.3	3.2
	Times First Mortgage Bond Interest Earned		5.02	3.99	4.22	3.63	3.70	4.31	4.26	3.28
	Times Total Funded Debt Interest Earned		3.26	2.64	2.65	2.13	2.04	2.19	2.27	1.84
	Times Total Interest Earned		2.86	2.29	2.41	2.03	1.89	1.98	1.88	1.66
	Common Shares – Price earnings ratio at year end		14.9	16.1	17.9	18.6	18.1	17.6	24.4	23.5
	Plant Investment per Dollar of Total Operating Revenues	$	2.75	2.41	2.29	2.21	2.32	2.33	2.27	2.35
	Utility Plant Investment per Dollar of Total Operating Revenues After Cost of Gas Purchased	$		5.63	5.37	6.46	6.60	6.99	6.91	8.22
	Utility Plant Investment per Year End Customer	$		859	802	1,019	991	1,036	1,111	1,401

NOTES:

(A) These figures give effect to a pro forma consolidation of Northern and Central Gas Company Limited, including Canadian Industrial Gas & Oil Ltd. which was acquired in 1966, as though all transactions in connection with the acquisition had taken place on January 1, 1966.

(B) This column shows the results of Northern and Central Gas Company Limited as though no transaction had taken place during 1966 in connection with the acquisition of Canadian Industrial Gas & Oil Ltd. and is comparable to the figures shown in the year 1965.

(C) The years 1960 to 1964 inclusive do not have figures relating to Greater Winnipeg Gas Company or Lakeland Natural Gas Limited which were acquired in 1965 or the figures of Canadian Industrial Gas & Oil Ltd. which was acquired in 1966.

① The total operating revenues of Canadian Industrial Gas & Oil Ltd. are included herein comprising:

Oil and Gas Production Sales	$ 7,924,653
Industrial Gas Sales and Pipe Line Tariff	5,203,307
Propane Gas Sales	6,255,766
	$19,383,726

The annual volumes producing these revenues were:

Oil Production	2,609,300 Bbls.
Gas Production	24,281,000 MCF
Industrial Gas Sales	33,424,000 MCF
Propane Gas Sales	35,610,000 Gal.

② On June 24, 1966, each of the issued and unissued Common Shares were sub-divided into two Common Shares.

③ Common share dividends commenced September 1, 1962 and two quarterly dividends of 12½¢ were paid during that year. Dividends reported in the years 1960 to 1965 are on the basis of the old shares. On the basis of the split shares the 1966 dividends were 7½¢ payable March 1, 8¼¢ payable June 1, and 9¢ payable September 1 and December 1.

④ Average use per customer was based on accumulated monthly averages and not on the number of year end customers.

NORTHERN AND CENTRAL GROUP OF COMPANIES

Northern and Central Gas Company Limited,
170 University Avenue, Toronto 1, Ontario.

> **Northern Ontario Natural Gas,**
> A Division of Northern and Central Gas Company Limited,
> 170 University Avenue, Toronto 1, Ontario.

Twin City Gas Company Limited,
135-137 North Syndicate Avenue, Fort William, Ontario.

Lakeland Natural Gas Limited,
P.O. Box 1087, Gardiners Road, Kingston, Ontario.

Greater Winnipeg Gas Company,
265 Notre Dame Avenue, Winnipeg 2, Manitoba.

Le Gaz Provincial du Nord de Québec Ltée,
9 est rue Perreault, Rouyn, Québec.

Champion Pipe Line Corporation Limited,
170 University Avenue, Toronto 1, Ontario.

Canadian Industrial Gas & Oil Ltd.,
640 Eighth Avenue, S.W., Calgary, Alberta.

> **Abasand Oils Limited,**
> 640 Eighth Avenue, S.W., Calgary, Alberta.
>
> **Prairie Oil Royalties Company, Ltd.,**
> 2236 Albert Street, Regina, Saskatchewan.
>
> **Northern and Central Gas (U.K.) Limited,**
> 640 Eighth Avenue, S.W., Calgary, Alberta.
>
> **Cigas Products Ltd.,**
> 640 Eighth Avenue, S.W., Calgary, Alberta.

Northern Ontario Acceptance Company Limited,
170 University Avenue, Toronto 1, Ontario.

> **Compagnie de Finance du Nord du Québec Limitée,**
> 9 est rue Perreault, Rouyn, Québec.

Nortwin Development Company Limited,
170 University Avenue, Toronto 1, Ontario.

Northern and Central Realty Limited,
170 University Avenue, Toronto 1, Ontario.

Canadian Lear Jet Limited,
170 University Avenue, Toronto 1, Ontario.

Canadian Lear Jet (Services) Ltd.,
170 University Avenue, Toronto 1, Ontario.

Transfer Agents

First Preference Shares, 1965 Series
Montreal Trust Company
Toronto, Ont. • Montreal, Que.
Winnipeg, Man. • Vancouver, B.C.

Second Preference Shares
National Trust Company Limited
Toronto, Ont. • Montreal, Que.
Calgary, Alta. • Vancouver, B.C.

First and Second Preference Shares Listed on Toronto Stock Exchange

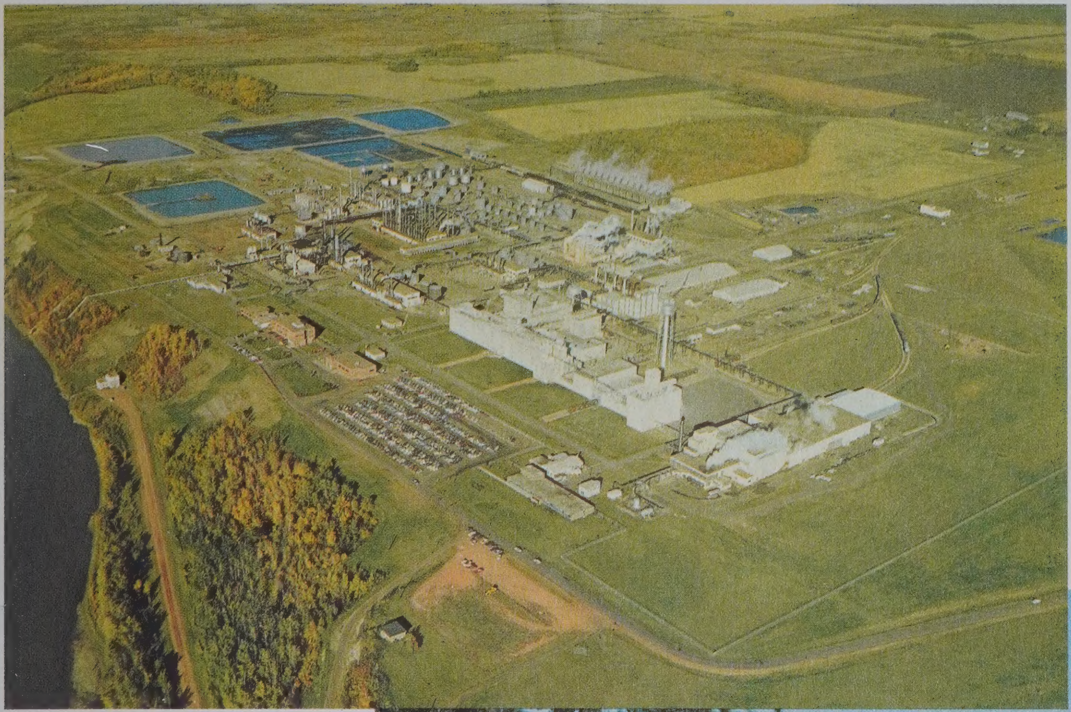
Common Shares
National Trust Company Limited
Toronto, Ont. • Montreal, Que.
Calgary, Alta. • Vancouver, B.C.

Montreal Trust Company
Winnipeg, Man.

Chemical Bank New York Trust Company
New York, N.Y., U.S.A.

Common Shares Listed on Toronto, Montreal, Winnipeg and Vancouver Stock Exchanges

Printed in Canada on Paragon Offset Brilliant



The petrochemical plant of Chemcell Limited at Edmonton, at left, is one of the largest industrial customers served by CIGO, a company subsidiary. Firm service natural gas requirements by primary industry on the Company's system increased 21 per cent in 1966.

Two major construction projects in 1966 brought natural gas to the Steep Rock iron range in Northwestern Ontario and to Rouyn-Noranda in Northwestern Quebec. Below is a view of the rugged right-of-way near Atikokan.

Institutional loads are increasingly important to the Company as new universities, hospitals and schools continue to be established in the franchise area. Commercial use of gas increased 14 per cent during 1966. A wing of Laurentian University, at Sudbury, is seen below.

Natural gas is being used extensively at Expo 67. The Company, in co-operation with other members of the industry, is sponsoring the Natural Gas Hospitality Pavilion, a dramatic building designed as a centre for women's activities, which opens at Expo 67 in April. The concept is a modern image of a modern fuel.

1867 1967

Centennial Year
Canada

Expo 67
Montreal

Pan American Games
Winnipeg

NORTHERN AND CENTRAL GAS COMPANY LIMITED
170 University Avenue, Toronto 1, Ontario